

## **INITIAL STATEMENT OF REASONS**

### **California Self-Help Housing Program Title 25, California Code of Regulations**

#### **Proposed Amendment to Division 1, Chapter 7, Subchapter 6.5 Section 7552**

#### **INTRODUCTION**

This Initial Statement of Reasons (ISOR) has been prepared by the California Department of Housing and Community Development (hereinafter "HCD") to describe a proposed amendment to regulations currently in effect for the California Self-Help Housing Program (the "CSHH Program" or the "Program") and the factual basis for this amendment.

Among other things, the CSHH Program provides grants to eligible sponsors that are engaged in developing, conducting, administering or coordinating programs of assistance that aid eligible households to construct or rehabilitate residential units for their own use. These types of activities commonly are referred to as "self-help" housing. Typically, a sponsor will acquire land and arrange for lots to be subdivided and improved. The sponsor will then sign up eligible low- or moderate-income households to assist in the construction of single family homes which they will occupy. These families are then able to utilize their "sweat equity" towards the down payment on their homes.

The CSHH Program provides grants to sponsors to offset the costs of the technical assistance services provided by the sponsor in the development of these self-help subdivisions, rather than having to pass these costs along to the homebuyer/builder.

#### **PROBLEM**

Currently, Program regulation section 7552, subsection (b) limits the amount of a technical assistance award to a single project to \$100,000. This provision was adopted in 1986. Since that time, costs incurred by sponsors of self-help developments have greatly increased. Currently, the per-unit technical assistance cost is \$15,000. In a 20-unit project, that cost translates to \$300,000. As a result, given the \$100,000 per project limit, sponsors have had to either reduce the number of homes with CSHH Program assistance, or pass the additional technical assistance costs along to the homebuyer/builder.

The United States Department of Agriculture, Rural Development (RD) operates its own self-help program in rural areas of the State (communities of less than 20,000). RD makes awards to a sponsor's self-help program and not to specific projects. Once the projects are defined and the technical assistance budgets developed, the sponsor may

find that there is inadequate funding to cover the costs. The CSHH Program partners with RD on many projects in rural areas, making up a shortfall in the RD budget. Historically, these requests for Program funds are less than the maximum allowed and it is anticipated that this practice will continue. However, RD does not operate in the urban areas. The absence of RD funding, coupled with the \$100,000 per-project limit, has made it almost impossible to undertake CSHH Program technical assistance projects in urban areas.

Two years ago, the Legislature increased the maximum award to \$200,000 through the Budget Act. This improved the effectiveness and efficiency of the Program by enabling the sponsor to assist more homebuyers/builders with one application and grant. This eliminated the need for the sponsor to submit multiple applications to achieve identical results. Though this was a one-time, unexpected increase, several sponsors were able to draw on the opportunity. By making the permanent change to a \$300,000 maximum, sponsors will be able to plan ahead and utilize the funds.

Increasing the project limit will enable sponsors to coordinate homebuyer/builder groups of larger numbers for infill development in urban areas, promoting Smart Growth by developing homes on vacant lots that are located near public transportation, businesses, and the potential homebuyer/builder's place of employment.

### **PROPOSED AMENDMENT**

In order to address this problem, HCD proposes to increase the per-project limit from \$100,000 to \$300,000.